



lapp | Local Authorities
Pension Plan

2010 ANNUAL REPORT

The Local Authorities Pension Plan (LAPP) is a defined benefit pension plan established in 1962 for the employees of local authorities in Alberta. The employers include organizations from the health care sector, cities, towns, villages, municipal districts, colleges, school boards and other public sector organizations.

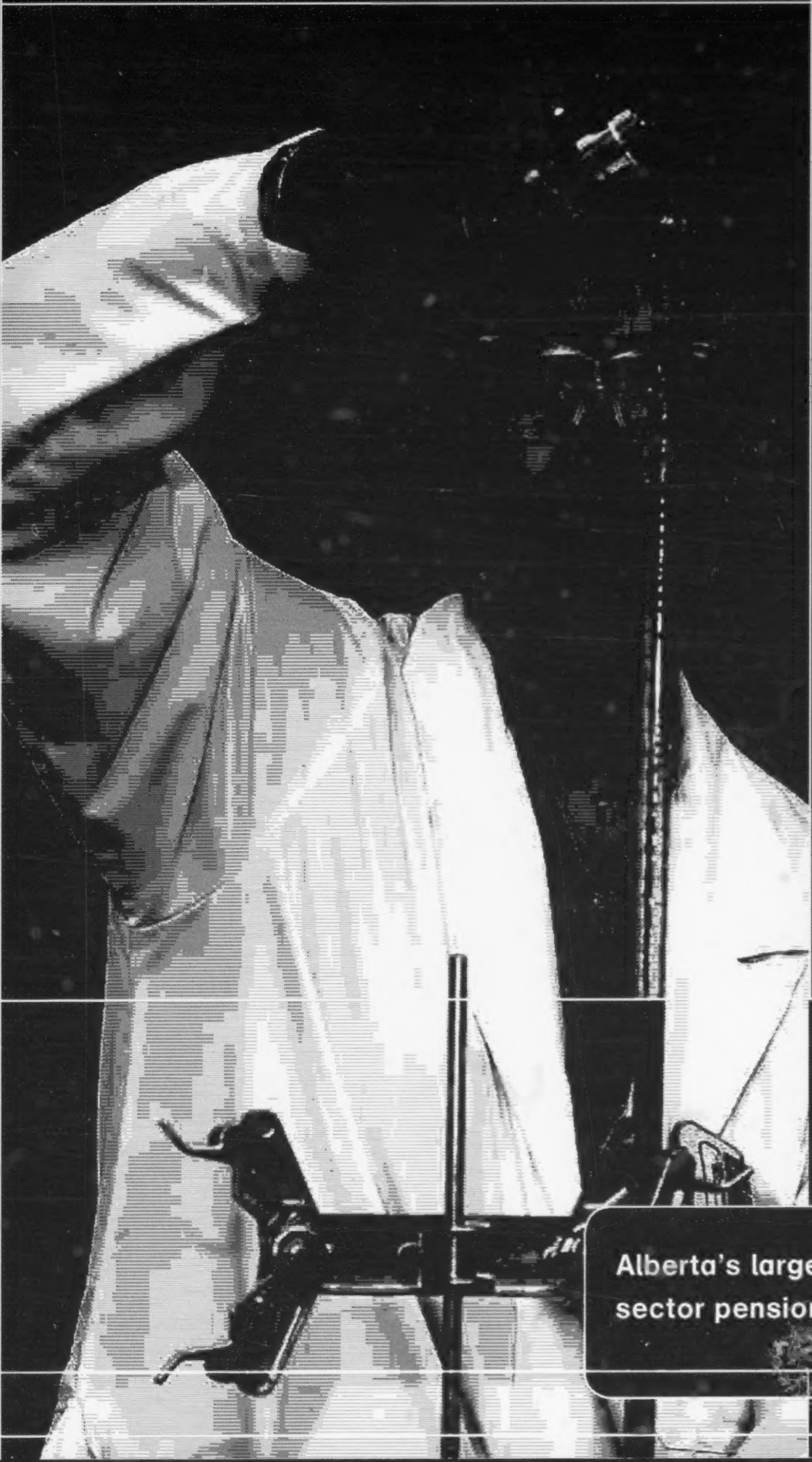
The Minister of Alberta Finance and Enterprise is the legal trustee and administrator of the Plan, which is governed by a 14-member Board of Trustees, nominated by employees, employers, retirees and government. As legal trustee, the Minister delegates different functions of the plan as follows:

- Alberta Local Authorities Pension Plan Corporation (LAPP Corp) is responsible for strategic guidance and Board support;
- Alberta Investment Management Corporation (AIMCo) is responsible for investment management;
- Alberta Pensions Services (APS) is responsible for benefit administration; and
- The Deputy Minister of Alberta Finance and Enterprise is responsible for LAPP's financial statements.

Contributions are collected from employers and employees and the money is invested in equities, bonds and other investment vehicles. The investment income and the contributions are used to pay pension benefits to LAPP retirees, now and in the future.

For more information on
LAPP visit www.lapp.ca.

Lapp | Local Authorities
Pension Plan



Contents

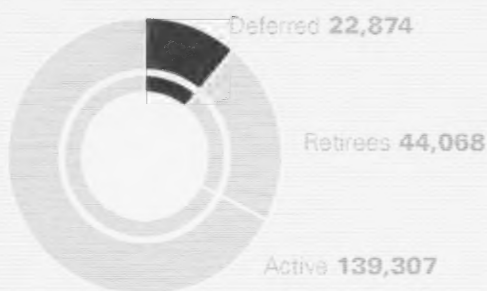
2	Highlights
4	LAPP Board of Trustees
5	Investment Examples
6	Message from the Chair
7	Message from the CEO
9	Board Discussion and Analysis
15	Benefit Administration
19	Report on Investments
29	Financial Statements December 31, 2010

Alberta's largest public
sector pension plan.

Year at a glance

- **Net assets available to provide member benefits (pensions):** \$17.7 billion, up from \$15.4 billion in 2009
- **Accrued benefits (liabilities):** \$22.3 billion, up from \$19.4 billion in 2009
- **Deficiency:** \$4.6 billion, up from \$4.0 billion in 2009
- **Funding status:** 79.2%, down from 79.4% in 2009
- **Total membership:** 206,249 up from 199,849 in 2009
- **Total number of participating employers:** 421, up from 418 in 2009

Membership December 31, 2010



Total: 206,249

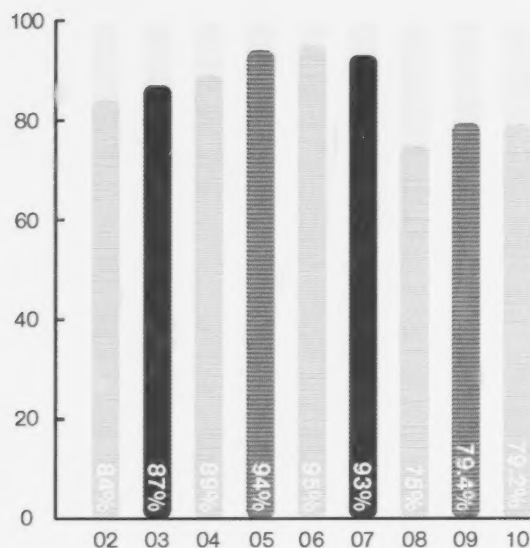
Summary of Net Assets Available for Benefits and Accrued Benefits

(As at Dec 31, 2010)

(thousands)	2010	2009
Net Assets Available for Benefits		
Net assets available for benefits	\$ 17,686,850	\$ 15,367,486
Accrued Benefits		
Value of accrued benefits	\$ 22,322,100	\$ 19,366,100
Deficiency	\$ (4,635,250)	\$ (3,998,614)

Funding status

(% funded by year)



Pension Contribution and Transfers

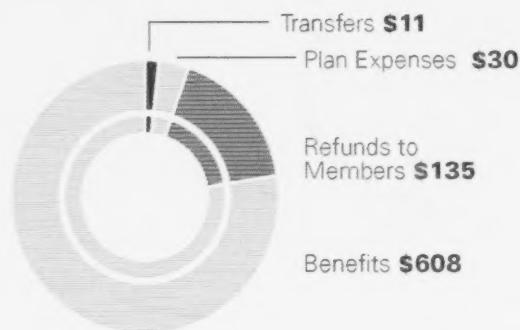
(\$ millions)



Total: \$1,504 Million

Payments from the Plan

(\$ millions)



Total: \$784 Million

Plan expenses

(\$ millions)



Total: \$94.3 Million

Administration and governance costs:

\$149 per member

Alberta Pensions Services costs to administer the plan: \$27.8 million

Governance expenses for overseeing the plan: \$2.0 million

Actuarial fees: \$0.4 million

Investment costs: \$316 per member

Alberta Investment Management costs to manage the plan's funds, including external managers: \$64.1 million

LAPP Board of Trustees



Larry Murray, Chair

Nominee for Alberta Union of Provincial Employees and all unions not included in the Alberta Federation of Labour.



Grant Howell, Vice-Chair, bop, hrc

Nominee for Council of Board Chairs, Alberta Association of Public Colleges and Technical Institutes



Ken Balkwill, ap

Nominee for Retirees



Jodi Edmunds, bop

Nominee for United Nurses of Alberta



Doug Fischer, ap, hrc

Nominee for Health Sciences Association of Alberta



Chris Good, au

Nominee for Management and Out-of-Scope



Neil Ketler, ap, au

Nominee for Alberta Federation of Labour



Tony Krivoblocki, bop, hrc

Nominee for Alberta Federation of Labour



Rod Matheson, au

Nominee for Government of Alberta



Elaine Noel-Bentley, au, hrc

Nominee for Alberta Health Services



John Ramsey, au, bop

Nominee for Alberta Health Services



Helen Rice, ap, bop

Nominee for Alberta Urban Municipalities Association



George Walker, hrc

Nominee for Alberta School Boards Association



John Whaley, ap

Nominee for Alberta Association of Municipal Districts and Counties

Committee Legend

AP Appeal Committee
AU Audit Committee

BOP Board Operations Committee
HRC Human Resources and Compensation Committee

Here are some examples of what was in LAPP's investment portfolio in 2010

Canadian Examples

Westaim Corporation: Westaim invests, directly and indirectly, through acquisitions, joint ventures and other arrangements, with the objective of providing its shareholders with capital appreciation and real wealth preservation. Westaim owns 100% of JEVCO Insurance Company, a property and casualty insurance company.

George Weston Ltd: George Weston Limited is a Canadian food processing and distribution company, founded in 1882 by George Weston. Brands falling under the George Weston banner include Country Harvest, President's Choice, and No Name. The company also operates the chains Loblaws, Real Canadian Superstore, and T&T Supermarket.

Home Capital Group: Operating through a subsidiary, Home Trust Company, HCG provides Canadians with a range of credit products, among them mortgages, credit cards and deposit services. Mortgaged properties are residential and non-residential and include apartment and office buildings, hotels in addition to construction and industrial complexes.

International Examples

Viacom Inc.: Viacom is the world's fourth-largest media conglomerate with interests primarily in, but not limited to, cinema and cable television. Assets owned by Viacom include Paramount Motion Pictures Group, MTV Networks, Comedy Central, and Spike.

Apple Inc.: The world's second-largest company by market capitalization, Apple Inc. is an American multinational that designs and markets consumer electronics, computer software, and personal computers. The company is best known for its Mac computers, the iPod, iPhone, and iPad.

Consol Energy: Consol is a leading diversified energy company headquartered out of Pittsburgh, PA. The firm has a hand in generating two-thirds of the United States' power supply, while producing more high-quality bituminous coal than any other US producer.

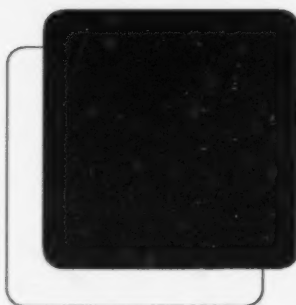
Brambles Ltd.: Brambles was established in 1875 by Walter Bramble in Newcastle, Australia. The firm's main two lines of business are CHEP and Recall. CHEP is the world's largest pallet and container pooling services business. Recall operates document management centres, computer back-up data protection centres and secure destruction centres.

Sage Group Plc: The world's third largest supplier of enterprise resource planning software, Sage is the largest supplier to small businesses. Headquartered in the United Kingdom, the firm has offices in 24 countries, with its products and services available in more than 160 countries across the globe.

ING Group: ING is an international financial institution offering services in banking, insurance, and asset management. The firm operates in over 40 countries worldwide, and employs over 100,000 individuals. ING is one of the world's largest financial institutions by revenue.

Baidu Inc.: Baidu is one of the world's most visited websites, while also being one of the least recognized internet portals to North Americans. Headquartered in China, Baidu offers a variety of services including a Chinese search engine, a collaboratively built encyclopedia, and a searchable discussion forum, amongst others.

Taiwan Semiconductor Manufacturing Company: Located on the island of Taiwan, TSMC is the world's largest dedicated independent semiconductor foundry. TSMC's variety of product lines attracts business from some of the most well-known names in the tech industry including Qualcomm, Broadcom, and NVIDIA.



Steadily recovering from the global financial crisis of 2008, LAPP ended 2010 with a 9.9% return on investments and plan assets grew to \$17.7 billion from \$15.4 billion. The

economy improved and equity markets were stronger in 2010, resulting in less market turbulence than experienced in the previous two years.

News of market recovery is tempered by caution, though, as AIMCo's investment returns did not meet benchmarks set by the LAPP Board and, therefore, asset gains were not enough to offset a further increase in unfunded liabilities. The result is a slight decline of our funded position to 79.2% from 79.4%; ending 2010 with an unfunded liability of \$4.6 billion. Investment performance is critical to the success and security of LAPP, but it is also important to anticipate any increase in liabilities as we seek to keep LAPP stable into the future.

Much of the Board's focus through 2010 was to review its investment policies and look for better ways to monitor and manage risks to both assets and liabilities. Working with Alberta Investment Management Corporation (AIMCo), the Board seeks to meet the challenge of improved investment performance.

The Board continues to maintain a diversified portfolio with a good asset mix, balancing a combination of stocks, bonds, real estate, infrastructure and other assets, in the context of our liabilities. Trustees established an improved set of investment benchmarks to better assess the fund manager's performance, as part of their oversight of fund assets.

2010 was a year of positive growth for the plan, with membership climbing by almost 4% to 206,249 members. Our ratio of active to retired members is more than 3:1, which puts us in a good position as we face the demographic bubble of baby boomers approaching retirement. The Board continues to study projections which analyze possible changes in future membership, working to keep the plan stable and sustainable over time.

I thank the Board of Trustees for their dedication and hard work on behalf of the Local Authorities Pension Plan. I would also thank the employees of LAPP Corporation, Alberta Pensions Services (APS) and AIMCo for the hard work and outstanding commitment to providing a valuable pension for our members.

Larry Murray
Chair



While it is no easy task to plot a course over uncharted territory, for LAPP the unpredictability of capital markets has not taken us away from our ultimate destination.

We continue to have

our sights set on long-term success, as we build a plan that is stable, sustainable and meets the needs of our members well into the future.

In 2010, LAPP's Board and management put a concerted effort into optimizing investment performance. We reviewed benchmarks, assessed investment goals, focused on best strategies for managing risk and updated our SIP&G (Statement of Investment Policy and Goals).

We had a return on investments of 9.9% in 2010. However, plan liabilities continued to grow as low long-term interest rates call for more money to be set aside to pay for pensions in the future. To address this issue, LAPP's Board also spent considerable time reviewing funding assumptions, assessing actuarial cost methods and beginning work on a new long-term funding strategy to help address a substantial unfunded liability.

While optimizing investment performance and improving plan funding are important goals for LAPP, they are only two of the Board's six approved strategies for managing the pension plan. To that end, work was also done in 2010 to achieve objectives related to the other strategies: strengthening plan governance; improving plan benefit administration; enhancing relations with our partners; and fostering confidence and understanding in the value of the plan. You will learn about some of those accomplishments as you read through this annual report.

2010 was also a year of organizational transition for LAPP which has resulted in a new executive team to support the Board in its important work. LAPP welcomes: Beth Spark, VP Policy and Research; Laurence Waring, VP Investments; and Sheri Wright, VP Stakeholder Relations. As we look ahead, security of plan benefits continues to be our top priority as we seek to find more and better ways to engage our stakeholders in shaping the future of our plan.

My thanks go to Board members and the LAPP team for their support during what has been a very busy and productive year. I look forward to working with you all in 2011.

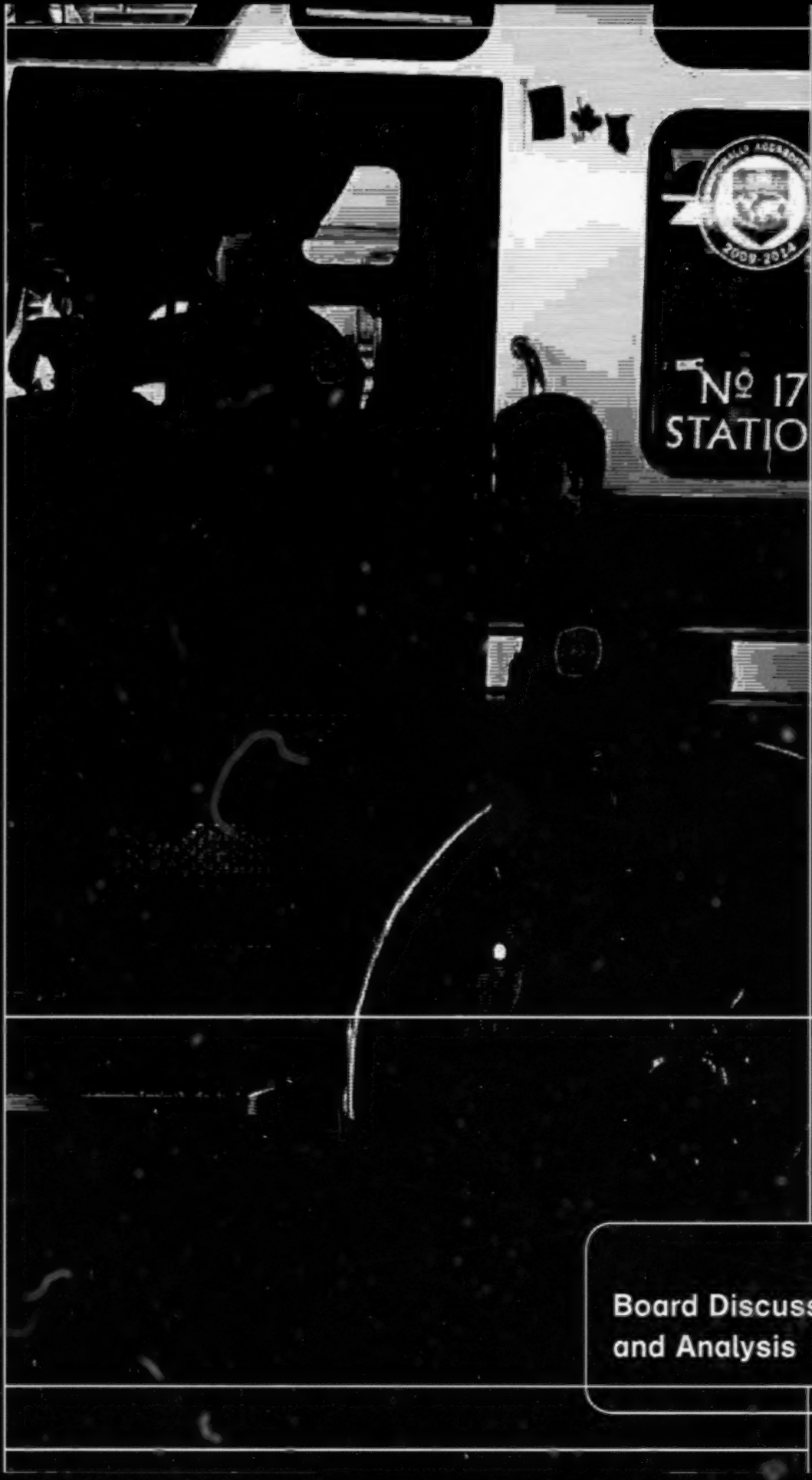
Meryl Whittaker
CEO



LAPP says thank you and bids farewell to:

Board Trustee John Ramsey
(Nominee of Alberta Health Services)

John was a member of the LAPP Board for three years and served on the Audit Committee and the Board Operations Committee



**Board Discussion
and Analysis**

Board Discussion and Analysis

Financial report

Still recovering from the financial roller-coaster ride that started in 2008, LAPP managed to finish 2010 just short of double-digit investment returns as the global economy improved and equity markets rebounded. However, the 9.9 % return was not enough to offset an increase in the plan's unfunded liability.

In addition, this is the third year the investment manager has not met benchmark expectations for the plan since the global financial crisis hit in 2008. LAPP's Board continues to review its policies and discuss investment performance with LAPP's investment manager and is looking for better results in the future. Assets are but one side of the equation in pension plans, however. To get a full picture of the financial health of the plan, liabilities must also be factored in.

Liabilities, which are sensitive to changes in interest rates, are the estimated cost of financing the plan's future benefits. The more interest rates fall, the more money there needs to be in the pension plan to cover future costs.

What this means for LAPP, and many other pension plans in Canada, is that despite gains in assets, liabilities have increased as long-term interest rates continued to drop during the year. Liabilities grew to \$22.3 billion in 2010, leaving LAPP unfunded by \$4.6 billion. While not an uncommon story for pension funds across Canada and around the world, the plan's unfunded status is an important issue for the Board, which is currently updating its funding policy and its investment policy to look at strategic options for tackling this deficit.

The Mercer Pension Health Index for 2010 suggests a typical Canadian pension plan was 73 per cent funded at the end of the year, down from 74 per cent a year earlier. LAPP ended the year 79.2 per cent funded, down from 79.4 per cent in 2009. Mercer estimates that many companies will report a weaker funded ratio for their pension, despite asset gains made during the year, because the drop in corporate bond yields was particularly steep in 2010.

During 2010, the Board spent considerable time and effort looking at investment results and reviewing various strategies that make up the investment policy that guides plan investments. As a result, provisions within the Statement of Investment Policies and Goals (SIP&G) dealing with the measurement of performance, currency management and responsible investing were amended. Moving forward, reviews of hedge funds, emerging markets, private equity and investment beliefs have been initiated. A central theme in 2011 will be risk management and the role of active management.

A significant advancement in 2010 was the introduction of a tool to measure the Board's assessment of how its investment policies are being implemented when LAPP funds are invested in global markets. The Board's "balanced scorecard," measures the work of the investment manager against performance, organization, portfolio construction and alignment. It established measures to objectively assess whether the investment activities are meeting Board expectations

Plan Governance

The Province recently passed the Alberta Public Agencies Governance Act (APAGA). Once proclaimed, this legislation will require the LAPP Board to develop a Mandate & Roles Document jointly with the Minister. In 2010, the Board developed a draft document based on its existing governance structure, legislation and the current delegation of roles by the Minister.

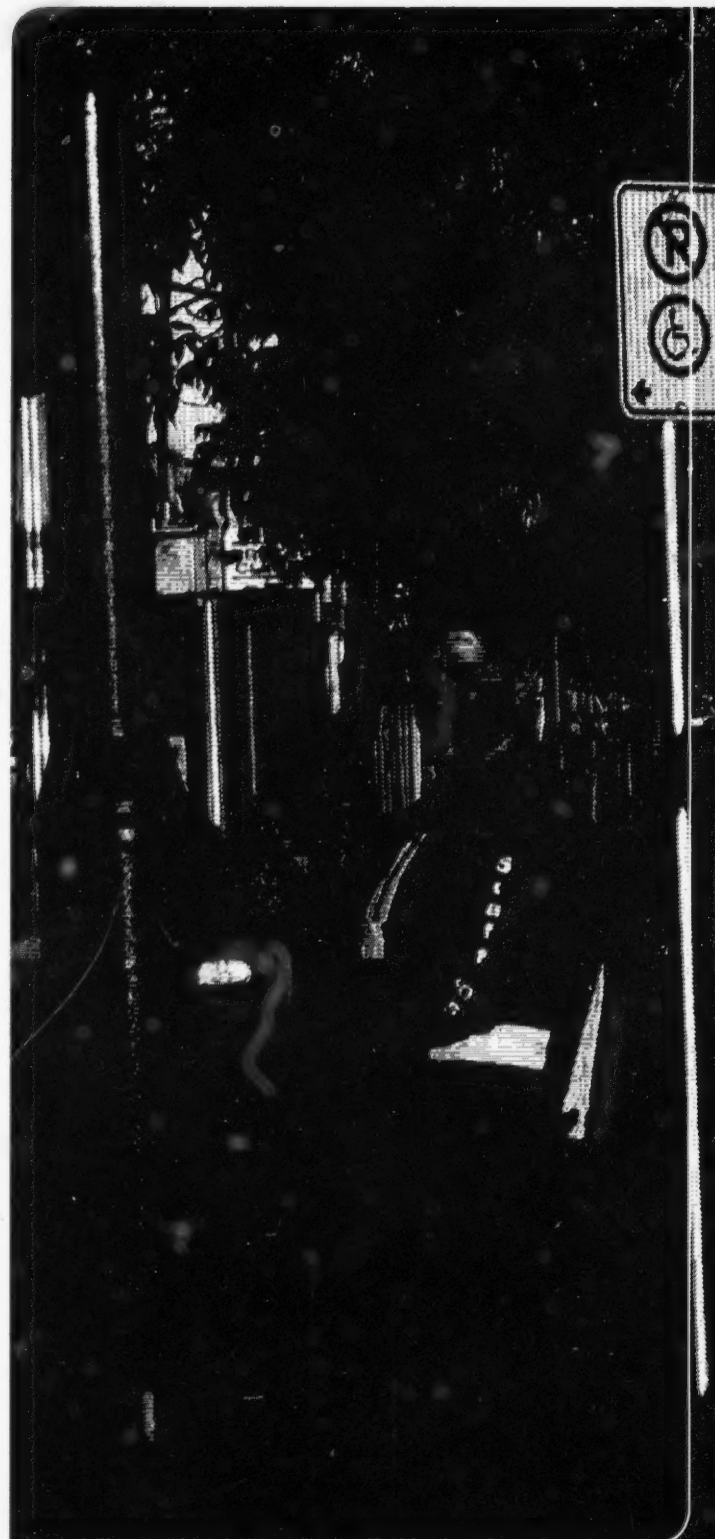
To add clarity to a very complex governance structure, the Board has included in the draft, a list of the duties it performs to help define the role of the Board and the LAPP Corporation vis-à-vis the Minister, Alberta Pensions Services (APS) and Alberta Investment Management Corp (AIMCo). The draft Mandate and Roles document has been submitted for discussion and should be finalized sometime in 2011 after the Board has received feedback from stakeholders and government.

Plan governance is an important topic for Board consideration and will continue to be in 2011.

Plan Funding

In 2009, LAPP's Board decided to change contribution rates in a way that would spread the increase out over three years, making it more predictable for members and employers to plan and implement. 2010 was the first year of those rate increases, with two more increments set for January 1, 2011 and January 1, 2012. Initial feedback has been positive, with employers saying it has been easier to prepare knowing what's ahead and with members agreeing they prefer spreading the cost increase out over the three years. Contribution rates include an amount to pay off the current unfunded liability over the course of 15 years.

As interest rates continue to stay low and the plan's liabilities grow, an important review for the Board is a look at the long-term funding policy. This review started in 2010 with the plan actuary (Mercer) preparing a number of liability projections based on different demographic scenarios. This study illustrated the dramatic effect that changes in active membership can have on the funding of the plan in future years.



Work continues in 2011 and will involve a consultation with stakeholders so Board members have input on decisions to rank key objectives like: benefit security; contribution stability; and intergenerational equity. The funding policy should also provide guidance on the timing of actuarial valuations, the use of asset smoothing and establishing an acceptable range of margins in a funding framework to help identify when changes to contributions are indicated.

Stakeholder Relations

Always working to build relations with LAPP stakeholders, LAPP's CEO visited employers and employee groups at various places around the province this year, giving presentations and sharing updates on plan features and plan funding. More of the same is planned for 2011. With 421 employers and 56 unions and associations representing 206,249 members there is a lot of opportunity for LAPP to seek feedback and stay in touch with those who are helping to fund the plan.

In addition, the Board met with members of the Stakeholder Consultation Group (SCG) twice in 2010, seeking feedback on plan design and plan rules and sharing information on the financial status of the plan. Members of the SCG are a very important sounding board for LAPP's Board because the group is a combination of employer and employee representatives whose views represent the "cheque writers" who sponsor the plan through their monthly contributions.

Plan Operations

The restructuring of health care during 2009 resulted in several employee groups becoming part of Alberta Health Services (AHS) and eligible for LAPP rather than the Public Sector Pension Plan (PSPP) where they had previously been members. In 2010, pension boards for the two plans worked with the Alberta Government on a regulatory framework for transferring the affected employees and the associated assets and liabilities between the two plans.

Despite the increased workload for Alberta Pensions Services (APS) with the AHS restructuring, the organization still managed to receive a year-end satisfaction rate of 85% as part of a member survey on service satisfaction, conducted by an independent consulting firm. Each year, APS continues to find ways to simplify and improve its administration of plan benefits.

Plan Design

Due to a change in LAPP's participation rules during 2010, employers now have greater scope for making LAPP available to part-time employees. Effective September 1, 2010 employers have the option to enroll certain part-time employees who are not permanent, and employers can combine an employee's regular hours in more than one part-time job. Effective September 1, 2011 it will be mandatory for employers to combine an employee's regular hours in all jobs with that employer for LAPP eligibility and pensionable service.

Consultations were held with stakeholders on the proposed changes to the employer withdrawal process and we will continue to work with the Alberta government to finalize new rules.

After studying some options in 2010, the Board decided not to pursue a formal phased retirement program for LAPP. Phased retirement provisions would add to the plan's complexity and administrative costs, and is not a priority at this time.



Cost effectiveness

Just as LAPP devotes much time and effort to monitoring investments, it also assesses the cost of plan operations to ensure LAPP is run as efficiently as possible. LAPP Corporation continues to employ only six staff members, keeping the organization small and efficient and supporting the Board in its oversight of the plan.

While the Board does not have control over the organizations delegated by the Minister of Finance to invest plan funds (AIMCo) and administer plan benefits (APS) it works closely with both to aid in achieving strong results for plan members.

The Board meets with the Auditor General's staff each year: reviews the results of financial and systems audits; receives reports on budgets and business plans; and provides advice and feedback on behalf of LAPP members. The Board also receives an annual report on cost effectiveness from the independent consulting firm CEM Benchmarking Inc. which reports on what it costs LAPP to administer plan benefits and manage investments, compared to others (peer groups).



Communications

LAPP continues to communicate with its members through printed newsletters, online advisories and information, e-newsletter updates and different printed materials. It is important to the Board that LAPP members understand their pension plan benefits and can quickly find the answers to any questions they may have.

In late 2010, LAPP launched a newly redesigned website, providing members and employers with a one-stop connection to all the information they need, including a virtual guide to lead them through the site and improve their online experience. Some of the features include access to personalized pension information, instructional video clips and answers to the most frequently answered questions. Online services are well accessed by our members, evidenced by the more than 170,000 hits to our website this year. In addition, three new service options were added to online access in 2010, allowing LAPP members to change beneficiaries, update addresses and choose whether to receive annual benefit statements electronically.

Moving forward

LAPP's Board is always looking ahead – working on the next strategic plan, the next actuarial valuation and the next investment strategy. Preparing for the future is a critical part of pension planning, where even small decisions made today can affect the value of plan funding several decades hence. Ensuring secure benefits for all plan members will continue to be an important focus.

On April 1, 2012 LAPP will achieve a significant milestone, turning 50 years old. Work has begun on developing a 50th Anniversary Consultation Plan to talk to members, retirees, employers, unions, and employee associations about LAPP. Watch for future communications on how you can contribute to this important discussion.

Benefit Administration

Administration Report

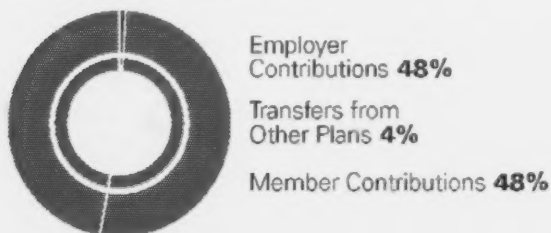
Alberta Pensions Services Corporation (APS) provides valued pensions services (as directed under a Pension Services Agreement with the Minister of Finance and Enterprise) on behalf of Local Authorities Pension Plan (LAPP) members, pensioners, employers and plan governors. Services include:

- Contributions management
- Member, pensioner and employer information management
- Member, pensioner and employer communications
- Benefit calculations
- Benefit disbursements
- Policy development and implementation
- Compliance, regulatory and plan financial reporting

Contributions to LAPP

In 2010, total contributions to LAPP were \$1,503 million.

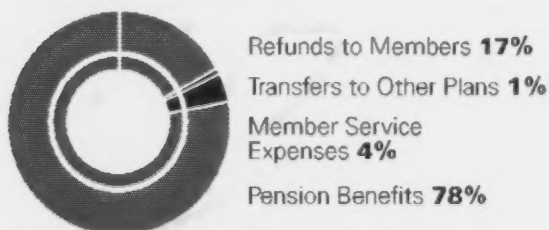
2010 Contributions to LAPP



Payments from LAPP

In 2010, total payments from LAPP were \$784 million.

2010 Payments from LAPP



LAPP Members, Pensioners and Employers

LAPP has 421 employers and a total of 206,249 active and deferred members and pensioners. In 2010, 14,654 people joined the Plan, 3,195 members retired and 5,780 people terminated and left the Plan.

LAPP Member Service Expenses

LAPP's share of APS operating and plan-specific costs are based on cost allocation policies approved by the Minister of Alberta Finance and Enterprise.

LAPP's share of APS costs were \$28 million in 2010. Based on average membership, LAPP's per member service expense is \$149, which includes APS operating costs, LAPP Corp. operating costs and actuarial fees.

	2010 \$ thousands	2009 \$ thousands
Alberta Pensions Services Corporation (APS)	\$ 27,861	\$ 21,782
Alberta Local Authorities Pension Plan Corporation (LAPP Corp.)	1,983	2,206
Actuarial fees	372	254
Total member service expenses	30,216	24,242
Member service expenses per member	\$ 149	\$ 125



Cost-of-Living Adjustment (COLA) to Pensions in Pay

After a member begins to receive a pension, a cost-of-living adjustment is applied every year there is an increase in the *Alberta Consumer Price Index (ACPI)*. COLA is equal to 60 per cent of the yearly increase of the ACPI.

COLA granted to pensioners who retired prior to January 1, 2010 was 0.6 per cent. For those who retired during 2010, this COLA increase was prorated depending on the month of retirement.

Initiatives in 2010

APS launched the following initiatives in 2010 to further enhance services to our valued LAPP clients:

New Website—APS launched a new LAPP website in October 2010. The website provides visitors with a more engaging online experience. New features include an online host to guide users to specific services, the top five frequently asked questions, instructional video clips, and an advanced search function. In 2010, 68,849 unique visits were made to the LAPP website, compared to 64,381 in 2009.

mypensionplan Enhancements—Members can now update their beneficiary information online. They can also choose to go green and stop receiving their member annual statement in the mail. By selecting this option on the secure member website, members will receive e-mail notification when their member annual statement is available to view online. There were 11,640 new LAPP members registered in mypensionplan, as of December 31, 2010.

Employer Services—APS created new employer training programs targeted to improve year-end employer reconciliations. A comparison of the 2009 year-end reconciliations compared to an average of the previous three years shows an improvement in the number of employers submitting their information on time.

Leaves of Absence Notice of Costs—APS thoroughly reviewed the Leave of Absence Notice of Cost package, and incorporated both member and employer feedback. The new package contains clear and concise information on the benefits of buying back service, an option to register a decision to purchase service online and a new streamlined process to ease employers' administrative responsibilities. The new product will be available in 2011.

Restructure of Alberta's Health Care Sector—APS mobilized staff in response to the restructuring in Alberta's health care sector, which saw 2,700 employees transition from the Public Service Pension Plan to LAPP. This significant effort will continue into 2011.

The Year Ahead

In 2011, APS plans to:

- perform a thorough review of the Benefit Options package and its processes to better help members understand their options.
- provide online registration for members who require one-on-one information sessions.
- continue to work on three multi-year projects to efficiently and effectively address changes in service demand.
 - Simplifying processes – APS will streamline processes to add value and clarity for the Corporation and valued clients, improving the quality and consistency of the pension experience.
 - Simplifying policies – This project will reduce complexity of pension plan rules and improve clarity around administrative policies. APS is committed to examining areas of pension administration and plan rules, and look for opportunities to improve understanding for members, employers and staff.
 - Simplifying systems – APS uses multiple applications to deliver its services. To be more efficient, APS needs to upgrade and unify the systems to successfully deliver service to plan boards, members and employers. With improved efficiency, APS can accommodate increases in transaction volumes over time.

For further information on LAPP or to access the **mypensionplan** site, please refer to the LAPP website at www.lapp.ca.

Report on Investments

Investment Management Structure

Alberta Investment Management Corporation (AIMCo) provides the day-to-day investment services for LAPP's investment portfolio. AIMCo invests LAPP's assets for the benefit of its members, in accordance with the Board of Trustees' Statement of Investment Policy and Goals (SIP&G). AIMCo manages the majority of the Plan's investments internally through pooled investment funds. However, for reasons such as greater diversification, access to external expertise and specialized knowledge and to reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

Market Review

Equity and bond markets were up in 2010 despite fears of a double dip recession and concerns about the sovereign debt crisis in Europe. The U.S. Federal Reserve funds rate remained unchanged throughout the year at a historic low of 0.25%. In Canada, the target overnight rate increased to 1.0% from a record low of 0.25% at the beginning of the year. Oil prices remained relatively stable throughout the year increasing from approximately \$80 U.S. per barrel to \$89 U.S. per barrel at the end of the year.

In 2010, the S&P/TSX Composite Total Return Index posted a gain of 17.6% compared to a gain of 35.1% in 2009. In the United States, the S&P 500 increased by 9.4% in Canadian dollars (15.1% in U.S. dollars) compared to a gain of 8.1% in Canadian dollars (26.5% in U.S. dollars) in 2009. U.S. equity returns were lower in Canadian dollars due to the strengthening of the Canadian dollar during the year against the U.S. dollar. Outside of North America, the MSCI EAFE Index posted a positive return of 2.4% in Canadian dollars compared to a gain of 12.6% in Canadian dollars in 2009.

The value of the Plan's foreign investment portfolio is exposed to foreign currency risk primarily through its investments in non-Canadian equities. The fair value of foreign investments decreases in Canadian dollars when the Canadian dollar strengthens against the foreign currency. At December 31, 2010, one U.S. dollar was worth 99 cents Canadian compared to \$1.05 Canadian at the beginning of the year. One Euro was worth \$1.33 Canadian compared to \$1.50 Canadian at the beginning of the year. As a result of the stronger Canadian dollar, foreign investments decreased in value over the year when translated into Canadian dollars resulting in lower foreign equity returns.

The bond market fared well with investors searching for incremental yields in a low interest environment. In 2010, the Canadian bond market represented by the DEX Universe Bond Index posted a return of 6.7% in 2010 up from 5.4% in 2009.

Long-Term Investment Return Expectation

For funding purposes, the Board's actuary targets a long-term investment return of 6.1% per annum. This assumes a real rate of return of 3.6% and long-term annual inflation of 2.5%.

By comparison, LAPP's investments gained 9.9% in 2010, up from 9.6% in 2009. Over ten years, the annualized return from the Plan's investments was 4.7%. Over seventeen years, the annualized return of the Plan was 7.2%.

Asset Mix

LAPP's Board sets the asset mix policy for the Plan which includes fixed income securities, equities and inflation sensitive and alternative investments.

The table below compares the target policy asset mix benchmark and minimum and maximum ranges with the actual asset mix at December 31, 2010 and 2009.

Asset Mix

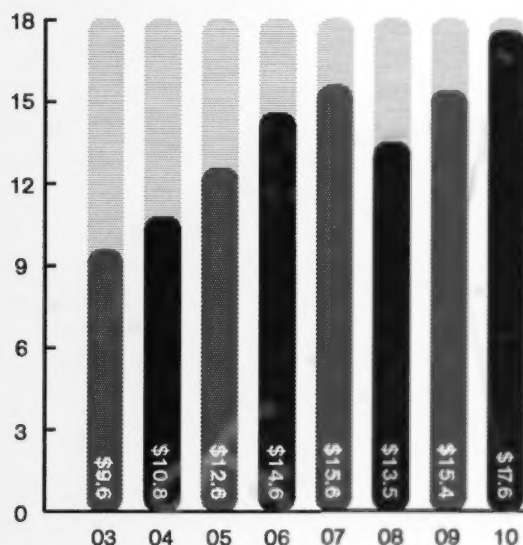
December 31, 2010
(in percent)

	Policy Benchmark	Policy Minimum	Policy Maximum	Actual 2010	Actual 2009
Fixed Income	28.5	20.0	50.0	31.3	30.8
Short-Term and cash	0.5	0.0	10.0	1.6	2.3
Long-Term					
Universe Bonds	8.0	0.0	10.0	4.9	3.5
Mortgages	0.0	0.0	7.0	4.6	4.6
Long-Term Bonds	20.0	15.0	28.0	20.2	20.4
Short-Horizon – Equities and Hedge Funds	32.0	25.0	50.0	41.0	44.1
Canadian Equity	9.0	5.0	20.0	12.6	12.2
Total Foreign Equity	18.0	10.0	40.0	24.7	28.1
Hedge Funds	5.0	0.0	10.0	3.7	3.8
Long Horizon – Private Equity	7.5	5.0	10.0	5.4	3.3
Inflation Sensitive/Alternatives	32.0	20.0	50.0	22.3	21.8
Real Estate	15.0	10.0	20.0	12.3	11.8
Real Return Bonds	5.0	0.0	10.0	6.0	5.8
Private Income (infrastructure)	10.0	5.0	15.0	3.5	3.7
Timberland	2.0	0.0	5.0	0.5	0.5
Total	100.0			100.0	100.0

Illiquid asset classes, such as private equities, private income and timberland investments, are not always readily available for purchase, therefore it may take a longer period of time to transition into these private investments.

Market Value – Investments

(billions \$)



Proxy Voting

The LAPP Board considers proxy voting to be a key element of responsible investing and that thoughtful voting is a contributor to optimizing the long term value of investments. The Board entrusts the proxy voting function to AIMCo. Research and proxy voting have been outsourced by AIMCo to an independent adviser that specializes in providing proxy-related services to institutional investors. While AIMCo may review and utilize the recommendations of the research provider in making proxy voting decisions, they are in no way obligated to follow such recommendations.

AIMCo believes that good governance enhances long term shareholder value and demonstrates that belief as a member of the Canadian Coalition for Good Governance (CCGG). Membership assists in the monitoring of dissenting opinion from within the organization leading to enriched decisions.

Risk Management System

The LAPP Board accepts that in order to meet the return objectives of the Plan, it must take on risk in the assets in which the Plan invests. The Plan invests in a diverse set of asset types to help improve the likelihood of achieving the desired results for a given level of risk.

Investment risk management is a central thesis for AIMCo. AIMCo seeks to measure and monitor both historic and possible future risks, allocating risk as a scarce resource to the most promising investment opportunities. AIMCo maintains a quantitative investment risk system designed to operate across all asset classes and a variety of risk types such as market risk, currency risk, and concentration risk.

As the ultimate risk to a pension plan is not being able to meet pension obligations, LAPP monitors the risk of the Plan's liabilities in relation to the investment assets. AIMCo models the risk of both assets and theoretical liabilities and reports to the LAPP Board quarterly. LAPP has established a series of limits on the risks to the Plan's funded status within its investment policies which are measured and monitored on this basis.



Investment Results

To evaluate performance and measure the value added by AIMCo from their active investment decisions such as security selection, the Plan compares the actual investment results to its investment policy benchmark. The benchmark return represents what the Plan could reasonably expect to earn without active management if it invested in the market indices in proportion to its policy asset mix approved by the Board. AIMCo strives to earn more than market returns by over or underweighting specific investments in relation to the indices. AIMCo is expected to deliver a return of 100 basis points or 1%, net of fees, in excess of the policy benchmark over a four-year time horizon.

The table below compares the Plan's actual returns to the policy benchmark returns. Over the past three years, the Plan has lost value against the policy benchmark for a total loss in value of approximately \$1.15 billion. In 2010, the Plan's investments gained 9.9% which was 1.7% less than the investment policy benchmark gain 11.6%. In other words, the value lost from active management in 2010 was approximately \$260 million compared to loss in value of \$210 million in 2009, a loss in value of \$675 million in 2008 and value added of \$250 million in 2007. Over four, ten and seventeen years the Plan's investments earned average annualized returns of 1.7%, 4.7% and 7.2% respectively, compared to the policy benchmark returns of 3.2%, 5.0% and 7.3%.

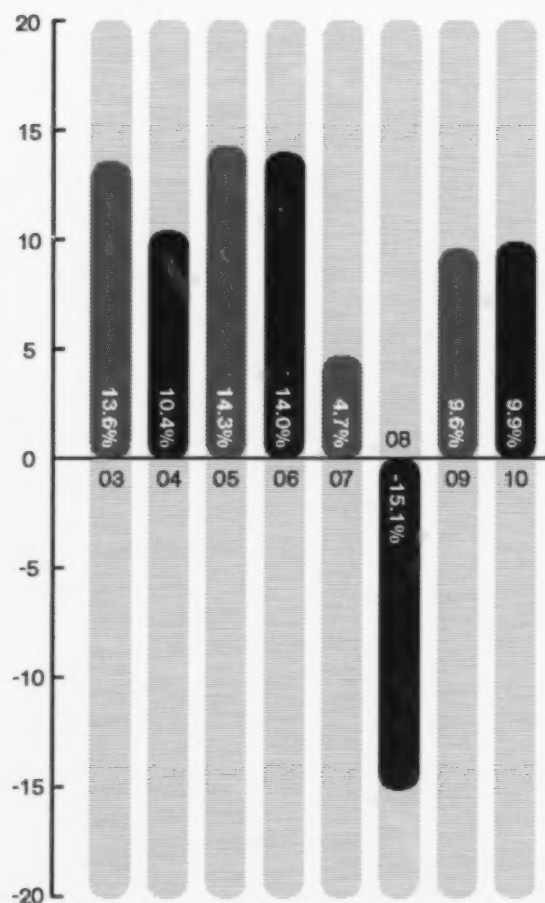
Investment Returns (%) Ending December 31, 2010

	2010	Annual Returns (%)			Annualized Returns (%)		
		2009	2008	2007	4 Years	10 Years	17 Years
		restated (a)					
Actual Return	9.9	9.6	(15.1)	4.7	1.7	4.7	7.2
Policy benchmark return	11.6	11.1	(10.9)	2.9	3.2	5.0	7.3
Value (lost) added by investment manager	(1.7)	(1.5)	(4.2)	1.8	(1.5)	(0.3)	(0.1)

(a) All investment returns are provided by AIMCo. The overall actual returns for 2009 have been increased from 9.4% to 9.6% resulting from an increase in estimated 2009 returns for private equities, private income and timberland.

Annual Returns (%)

(Actual Returns by year)



Fixed Income Investments

Fixed income investments include cash and short-term investments, universe bonds, private mortgages and long bonds. Fixed income investments are used to provide cash flow and adequate liquidity to meet the Plan's financial obligations as well as match some of its liabilities for risk management purposes.

As at December 31, 2010, the Plan had approximately \$5.516 billion or 31.3% of its total investments held in fixed income investments compared to \$4.775 billion or 30.8% at the beginning of the year. Fixed income investments are actively managed to generate extra returns over their respective benchmarks. Overall, fixed income investments earned a return of 11.3% in 2010, 1.1% more than the combined benchmark return of 10.2%. The actual returns from these investments in comparison to the benchmark return are shown below.

Total Fixed Income Investments (%)

	Actual Return	Benchmark Return	Value Added (Lost)
1 Year	11.3	10.2	1.1
4 Years	4.8	5.7	(0.9)

Cash and Short-Term (%)

	Actual Return	Benchmark Return	Value Added (Lost)
1 Year	1.0	0.5	0.5
4 Years	3.3	2.2	1.1

Long-Term Fixed Income (%)

	Actual Return	Benchmark Return	Value Added (Lost)
1 Year	12.0	10.5	1.5
4 Years	5.0	5.8	(0.8)

Equities

Equities include publicly traded Canadian and foreign equities, hedge funds and private equities. This asset class represents \$8.208 billion or 46.4% of the Plan's total investments at December 31, 2010 compared to \$7.350 billion or 47.4% at the beginning of the year.

Canadian Public Equities

At December 31, 2010, Canadian equities represented \$2.232 billion or 12.6% of total investments compared to \$1.893 billion or 12.2% at the beginning of the year.

The Canadian equity portfolio is managed primarily through the Canadian Equities Master Pool which includes passive and actively managed strategies.

The actual gain from Canadian equity investments in 2010 was 17.8%, 4.2% less than the benchmark gain of 22.0%.

Canadian Public Equities (%)			
	Actual Return	Benchmark Return	Value Added (Lost)
1 Year	17.8	22.0	(4.2)
4 Years	3.7	5.1	(1.4)

Foreign Public Equities

At December 31, 2010, foreign public equities comprised \$4.362 billion or 24.7% of the Plan's total investments compared to \$4.352 billion or 28.1% at the beginning of the year.

The foreign equity portfolio includes passive and actively managed investments in the U.S., Europe, Australasia and Far East (EAFE) and emerging markets. The foreign equity portfolio is managed primarily through the Global Equity Master Pool (84%) with smaller allocations to the

Portable Alpha U.S. Equity Pool (8%), Emerging Markets Equity Pool (6%) and other fixed income allocations (2%).

The Plan's actual gain from foreign equity investments in 2010 was 5.8%, 1.0% less than the benchmark gain of 6.8% measured in Canadian dollars. The gain from foreign equity investments includes a gain from emerging market investments of 14.4% in 2010 and 2.8% over 4 years.

Foreign Public Equities (%)			
	Actual Return	Benchmark Return	Value Added (Lost)
1 Year	5.8	6.8	(1.0)
4 Years	(4.9)	(5.1)	0.2

Hedge Funds

At December 31, 2010, absolute return strategies (hedge funds) comprised \$657 million or 3.7% of the Plan's total investment portfolio compared to \$591 million or 3.8% at the beginning of the year. This class of externally managed investments encompasses a wide variety of strategies with the objective of realizing positive returns regardless of the overall market direction. A common feature of many of these strategies is buying undervalued securities and selling short overvalued securities.

In 2010, hedge funds gained 12.8%, 3.5% more than the policy benchmark gain of 9.3%.

Hedge Funds (%)			
	Actual Return	Benchmark Return	Value Added (Lost)
1 Year	12.8	9.3	3.5
4 Years	1.2	8.2	(7.0)

Investments

Private Equities

At December 31, 2010 private equity investments comprised \$956 million or 5.4% of the Plan's total investment portfolio compared to \$514 million or 3.3% the previous year. Private equities include merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financings, project financings and leverage reductions.

In 2010, private equities gained 5.6%, 11.5% below the policy benchmark gain of 17.1%.

Private Equities (%)			
	Actual Return	Benchmark Return	Value Added (Lost)
1 Year	5.6	17.1	(11.5)
4 Years	(2.6)	11.6	(14.2)

Inflation Sensitive and Alternative Investments

Inflation sensitive and alternative investments include real estate, real return bonds, infrastructure and timberland.

Overall, inflation sensitive and alternative investments gained 10.8% in 2010, 0.6% less than the combined benchmark return of 11.4%.

Inflation Sensitive and Alternative Investments (%)			
	Actual Return	Benchmark Return	Value Added (Lost)
1 Year	10.8	11.4	(0.6)
4 Years	7.4	7.4	0.0

Real Estate

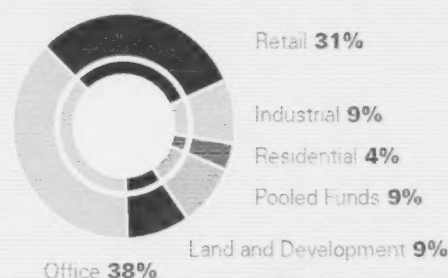
At December 31, 2010, real estate investments comprised \$2.165 billion or 12.3% of total investments compared to \$1.828 billion or 11.8% at the beginning of the year.

The Plan invests in real estate for diversification and protection from inflation. The real estate portfolio includes a mix of retail, office, residential and industrial properties. The focus is on quality properties featuring strong locations and tenants.

In 2010, real estate gained 12.2%, 0.6% more than the benchmark gain of 11.6%.

Real Estate (%)			
	Actual Return	Benchmark Return	Value Added (Lost)
1 Year	12.2	11.6	0.6
4 Years	7.3	7.5	(0.2)

Real Estate by Sector



Top Five Real Estate Holdings as at December 31, 2010

Property	Location	Sector
Yorkdale Shopping Centre	Toronto, Ontario	Retail
Square One Shopping Centre	Mississauga, Ontario	Retail
Place Ville Marie	Montreal, Quebec	Office
Scarborough Town Centre	Toronto, Ontario	Retail
Bow Valley Square	Calgary, Alberta	Office

Real Return Bonds

At December 31, 2010 real return bonds comprised \$1.055 billion or 6.0% of the Plan's total investment portfolio compared to \$893 million or 5.8% the previous year. Real return bonds are inflation-linked fixed income instruments designed to generate a specified real rate of return (return achieved after adjustments for inflation).

In 2010, real return bonds gained 11.0%, 0.1% below the policy benchmark gain of 11.1%.

Real Return Bonds (%)			
	Actual Return	Benchmark Return	Value Added (Lost)
1 Year	11.0	11.1	(0.1)
4 Years	6.6	6.7	(0.1)

Private Income (Infrastructure)

At December 31, 2010 private income investments comprised \$618 million or 3.5% of the Plan's total investment portfolio compared to \$572 million or 3.7% the previous year. Investments in infrastructure projects provide attractive returns plus inflation sensitivity with a long investment horizon. Infrastructure projects include transportation/logistics (e.g. toll roads, airports, ports and rail), power energy (e.g. contracted power generation and power transmission pipelines) and utilities (e.g. water, waste water and natural gas networks).

In 2010, infrastructure investments gained 7.5%, 3.1% below the policy benchmark gain of 10.6%.

Private Income (Infrastructure) (%)			
	Actual Return	Benchmark Return	Value Added (Lost)
1 Year	7.5	10.6	(3.1)
4 Years	9.7	8.5	1.2



Investments

Timberland

At December 31, 2010, timberland investments comprised \$87 million or 0.5% of the Plan's total investment portfolio compared to \$77 million or 0.5% the previous year.

Timberland investments are located primarily in Canada with a smaller investment outside of Canada. The Canadian timberland investment includes an interest in timber and related land located in the Province of British Columbia.

In 2010 the Timberland investment lost 0.8%, 10.7% less than the benchmark gain of 9.9%.

Timberland (%)			
	Actual Return	Benchmark Return	Value Added (Lost)
1 Year	(0.8)	9.9	(10.7)
4 Years	7.5	6.8	0.7

Investment Expenses

The Plan recognizes portfolio management and administration expenses incurred directly by the Plan and its share of expenses through pooled investment funds. Investment services provided by AIMCo are charged directly to the Plan and to the pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers are primarily regular management fees and performance/incentive based fees.

Investment services provided by AIMCo and external managers include trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

The Department of Finance and Enterprise of the Government of Alberta provides investment accounting and reporting for the Plan and treasury management services.

Investment expenses as a percentage of net assets are provided below:

(\$ millions)	2010	2009
Total investment expenses	\$ 64.1	\$ 63.5
Average fair value of investments	\$16,572	\$14,494
Expenses as a percentage of investments	0.39%	0.44%



Contents

- 30 Independent Auditor's Report
- 32 Statements of Net Assets Available for Benefits and Liability for Accrued Benefits
- 32 Statements of Changes in Net Assets Available for Benefits
- 33 Statements of Changes in Liability for Accrued Benefits
- 33 Statements of Changes in Deficiency
- 34 Notes to the Financial Statements

Financial Statements
Year Ended December 31, 2010

Auditor's Report



**To the Minister of Alberta Finance and Enterprise and
the Local Authorities Pension Plan Board of Trustees**

I have audited the accompanying financial statements of the Local Authorities Pension Plan, which comprise the statement of net assets available for benefits and liability for accrued benefits as at December 31, 2010 and the statements of changes in net assets available for benefits, changes in liability for accrued benefits and changes in deficiency for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in with accordance Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the net assets available for benefits and liability for accrued benefits of the Local Authorities Pension Plan as at December 31, 2010, and the changes in net assets available for benefits, changes in liability for accrued benefits and changes in deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher]
CA

Auditor General

April 15, 2011

Edmonton, Alberta

Local Authorities Pension Plan

Statement of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31, 2010

	(\$ thousands)	
	2010	2009
Net Assets Available For Benefits		
Assets		
Investments (Note 3)	\$17,648,692	\$15,494,381
Contributions receivable (Note 6)	44,191	40,920
Receivable for investment sales	-	75
Accrued investment income and accounts receivable	-	6,138
	<u>17,692,883</u>	<u>15,541,514</u>
Liabilities		
Accounts payable	6,033	10,603
Liabilities for investment purchases	-	163,425
	<u>6,033</u>	<u>174,028</u>
Net assets available for benefits	17,686,850	15,367,486
Liability for Accrued Benefits		
Actuarial value of accrued benefits (Note 7)	22,322,100	19,366,100
Deficiency	<u>\$ (4,635,250)</u>	<u>\$ (3,998,614)</u>

The accompanying notes are part of these financial statements.

Local Authorities Pension Plan

Statements of Changes in Net Assets Available for Benefits

Year ended December 31, 2010

	(\$ thousands)	
	2010	2009
Increase in assets		
Contributions (Note 8)	\$ 1,503,231	\$ 1,313,955
Net investment income (Note 9)		
Investment income	1,663,817	1,381,492
Investment expenses	(64,105)	(63,543)
	<u>1,599,712</u>	<u>1,317,949</u>
	<u>3,102,943</u>	<u>2,631,904</u>
Decrease in assets		
Pension benefits	608,197	569,021
Refunds to members	134,519	162,473
Transfers to other plans	10,647	25,911
Member service expenses (Note 11)	30,216	24,242
	<u>783,579</u>	<u>781,647</u>
Increase in net assets	2,319,364	1,850,257
Net assets available for benefits at beginning of year	<u>15,367,486</u>	<u>13,517,229</u>
Net assets available for benefits at end of year	<u><u>\$ 17,686,850</u></u>	<u><u>\$ 15,367,486</u></u>

The accompanying notes are part of these financial statements.

Statement of Changes in Liability for Accrued Benefits

Year ended December 31, 2010

	(\$ thousands)	
	2010	2009
Increase in liability for accrued benefits		
Interest accrued on opening liability for accrued benefits	\$ 1,318,000	\$ 1,189,500
Benefits earned	959,200	950,400
Net increase (decrease) due to actuarial assumption changes	1,526,700	(602,600)
	<u>3,803,900</u>	<u>1,537,300</u>
Decrease in liability for accrued benefits		
Benefits paid including interest	765,400	760,300
Net experience gains (losses) (Note 7 ^(b))	82,500	(657,900)
	<u>847,900</u>	<u>102,400</u>
Net increase in liability for accrued benefits	2,956,000	1,434,900
Liability for accrued benefits at beginning of year	<u>19,366,100</u>	<u>17,931,200</u>
Liability for accrued benefits at end of year (Note 7)	<u><u>\$ 22,322,100</u></u>	<u><u>\$ 19,366,100</u></u>

Statement of Changes in Deficiency

Year ended December 31, 2010

	(\$ thousands)	
	2010	2009
Deficiency at beginning of year	\$ (3,998,614)	\$ (4,413,971)
Increase in net assets available for benefits	2,319,364	1,850,257
Net increase in liability for accrued benefits	(2,956,000)	(1,434,900)
Deficiency at end of year (Note 13)	<u><u>\$ (4,635,250)</u></u>	<u><u>\$ (3,998,614)</u></u>

The accompanying notes are part of these financial statements.

NOTE 1 Summary Description of the Plan

The following description of the Local Authorities Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the Public Sector Pension Plans Act, Revised Statutes of Alberta 2000, Chapter P-41, and the Local Authorities Pension Plan Alberta Regulation 366/93, as amended.

a) GENERAL

The Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, school divisions, school districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. The Plan is a registered pension plan as defined in the Income Tax Act. The Plan's registration number is 0216556. The Minister of Alberta Finance and Enterprise is the legal trustee of the Plan and Alberta Finance and Enterprise is management of the Plan. The Plan is governed by the Local Authorities Pension Board (the Board).

b) PLAN FUNDING

Current service costs and the Plan's actuarial deficiency (see Note 13) are funded by employers and employees at contribution rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The contribution rates in effect at December 31, 2010 were 8.06% (2009: 7.46%) of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 11.53 % (2009: 10.66%) of the excess for employees, and 9.06 % (2009: 8.46 %) of pensionable earnings up to the YMPE and 12.53 % (2009: 11.66%) of the excess for employers.

The contribution rates were reviewed by the Board in 2009 and are to be reviewed at least once every three years based on recommendations of the Plan's actuary. As a result of this review, the contribution rates have increased at January 1, 2011 as follows: 8.49% of pensionable salary up to the YMPE and 12.13% of the excess for employees, and 9.49% of pensionable salary up to the YMPE and 13.13% of the excess for employers.

c) RETIREMENT BENEFITS

The Plan provides for a pension of 1.4% for each year of pensionable service based on the average salary of the highest five consecutive years up to the YMPE and 2.0% on the excess, subject to the maximum pension benefit limit allowed under the Income Tax Act. The maximum pensionable service allowable under the Plan is 35 years. Unreduced pensions are payable to members at retirement who have attained age 65, or have attained age 55 and the sum of their age and years of pensionable service equals at least 85. Reduced pensions are payable to members at age 55 or older retiring early with a minimum of two years of pensionable service.

d) DISABILITY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least two years of pensionable service. Reduced pensions may be payable to members who become partially disabled and retire early with at least two years of pensionable service.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least two years of pensionable service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner, or where pensionable service is less than two years, a lump sum payment will be made.

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with at least two years of membership and who are not immediately entitled to a pension may receive the commuted value for all years of membership, contributions paid in respect of optional service with interest, plus excess contributions if applicable, with the commuted value being subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with fewer than two years of membership receive a refund of their contributions and interest. These payments are included as Refunds to members on the Statement of Changes in Net Assets Available for Benefits.

g) OPTIONAL SERVICE AND RECIPROCAL TRANSFERS

All optional service purchases are to be cost-neutral to the Plan. The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 Summary of the Significant Accounting Policies and Reporting Practices

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

The Canadian Accounting Standards Board has announced new accounting standards for pension plans effective for the 2011 year. The Plan will be adopting the new standards under CICA Section 4600 for the December 31, 2011 year and has determined that the transition will not have a significant impact on its financial statements.

Plan investments are held in pooled investment funds established and administered by Alberta Investment Management Corporation (AIMCo). Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

b) VALUATION OF INVESTMENTS

Investments are recorded in the financial statements at fair value.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

For private investments, absolute return strategies and timberland investments, the fair value is based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Notes to the Financial Statements

(All dollar amounts in thousands, except per member data)

The methods used by AIMCo to determine the fair value of investments held either by the Plan or by pooled investment funds is explained in the following paragraphs:

- i) Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.
- ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- iii) The fair value of private equity and infrastructure investments is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple earnings analyses.
- iv) The fair value of real estate investments is reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.
- v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.
- vi) The fair value of timberland investments is appraised annually by independent third party valuers.

c) INCOME RECOGNITION

Investment income and expenses are recognized on the accrual basis. Dividends are accrued on the ex-dividend date. Gains or losses on investments, including those from derivative contracts, are recognized concurrently with changes in fair value.

d) FOREIGN EXCHANGE

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency interest rate swaps and swap option contracts. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

- i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.
- ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

- iii) Forward foreign exchange contracts and futures contracts are based on quoted market prices.
- iv) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.
- v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

f) VALUATION OF LIABILITY FOR ACCRUED BENEFITS

The value of the liability for accrued benefits and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at the beginning of the year and results from the most recent valuation are extrapolated to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's liability for accrued benefits, private investments, absolute return strategies, real estate and timberland investments. Uncertainty arises because:

- i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's liability for accrued benefits, and
- ii) the estimated fair values of the Plan's private investments, absolute return strategies, real estate and timberland investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's liability for accrued benefits, private investments, absolute return strategies, real estate and timberland investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's accrued benefits are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in liability for accrued benefits in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

Notes to the Financial Statements

(All dollar amounts in thousands, except per member data)

NOTE 3 Investments

	(\$ thousands)			
	2010		2009	
	Fair Value	%	Fair Value	%
Fixed income				
Deposits and short-term securities ^(a)	\$ 273,784	1.6	\$ 517,616	3.3
Bonds and mortgages ^(b)	5,242,176	29.7	4,257,224	27.5
	5,515,960	31.3	4,774,840	30.8
Inflation sensitive and alternative investments				
Real estate ^(c)	2,165,058	12.3	1,827,730	11.8
Real return bonds ^(d)	1,054,727	6.0	892,697	5.8
Infrastructure ^(e)	617,851	3.5	572,405	3.7
Timberland ^(f)	86,741	0.5	76,718	0.5
	3,924,375	22.3	3,369,550	21.8
Short horizon				
Canadian public equities ^(g)	2,232,468	12.6	1,892,796	12.2
Foreign public equities ^(h)	4,362,444	24.7	4,351,938	28.1
Absolute return strategy hedge funds ⁽ⁱ⁾	656,952	3.7	590,835	3.8
	7,251,864	41.0	6,835,569	44.1
Long horizon				
Private equities ^(j)	956,493	5.4	514,422	3.3
Total investments ^(k)	\$ 17,648,692	100.0	\$ 15,494,381	100.0

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the Plan's board. The Plan's investments, in each asset class, are held in pooled investment funds established and administered by AIMCo. The fair value of pool units is based on the Plan's share of the net asset value of the pooled investment funds. Pooled investment funds have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF) of \$263,189 (2009: \$475,477) and short-term securities of \$10,595 (2009: \$42,139). These investments include primarily short-term and mid-term interest-bearing securities which have a maximum term to maturity of less than three years. At December 31, 2010, deposits in CCITF had a time-weighted return of 0.8% per annum (2009: 1.4% per annum).

- b) The bond and mortgage portfolio includes policy allocations to universe bonds totalling \$874,476 (2009: \$540,106), long government bonds totalling \$3,562,833 (2009: \$3,165,555) and mortgages totalling \$804,867 (2009: \$708,957). The portfolio includes investments in government direct and guaranteed bonds, mortgage-backed securities, corporate bonds, asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives and loans. At December 31, 2010, interest-bearing bonds and mortgages had an average effective market yield of 4.5% per annum (2009: 5.3% per annum) and the following term structure based on principal amount: under 1 year: 3% (2009: 3%); 1 to 5 years: 12% (2009: 25%); 5 to 10 years: 15% (2009: 28%); 10 to 20 years: 15% (2009: 16%); and over 20 years: 55% (2009: 28%).
- c) The real estate portfolio was primarily held in Canada. Real estate is held through intermediary companies, which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities which provide diversification from the securities market with opportunities for high return.
- d) Real return bonds are issued or guaranteed primarily by the Government of Canada, and bear interest at a fixed rate adjusted for inflation.
- e) Infrastructure includes investments that are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks).
- f) Canadian and foreign timberland investments are inflation sensitive and long-duration. The Canadian timberland investment includes an interest in timber and related land located in the Province of British Columbia.
- g) The Plan's Canadian public equity portfolio includes directly held investments in Canadian public companies and indirect exposure to Canadian public equity markets through structured equity products using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX) Composite Index and S&P/TSX 60 Index.
- h) The global developed market is used to describe countries whose economies and capital markets are well established and mature. The Plan's global developed public equity portfolio includes directly held investments in public companies in the U.S., Europe, Australasia and the Far East (EAFE), emerging markets and Canada. The Plan's indirect exposure to global developed markets and emerging markets is also attained by investing in structured equity products using index swaps and futures contracts linked to the Morgan Stanley Capital International (MSCI) World Total Return Index, MSCI EAFE Index, S&P 500 Index and MSCI Emerging Markets Free Net Index. Emerging markets equities consist of publicly traded equities in countries in the process of rapid growth and industrialization such as Brazil, Russia, India and China. The portfolio is actively managed by external managers with expertise in emerging markets. A component of the Plan's global portfolio includes investments in North American concentrated equities which include larger holdings in mid-size Canadian and American companies ranging from 5% to 20% of outstanding common shares.
- i) The absolute return strategies (hedge funds) use external managers who employ various investment strategies which are expected to produce absolute positive investment returns with lower volatility. Investments are made through multi-hedge fund-of-funds and direct investments to increase strategy diversification.
- j) Private equity investments include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financings, project financings and leverage reductions.

Notes to the Financial Statements

(All dollar amounts in thousands, except per member data)

- k) The table below provides a summary of management's estimate of the relative reliability of data or inputs used by AIMCo to measure the fair value of the Plan's investments. The measure of reliability is determined based on the following three levels:

Level One: Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities traded in active markets. Level one primarily includes publicly traded listed equity investments.

Level Two: Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

Level Three: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level three primarily includes real estate, hedge funds, private equities, timberland, infrastructure and private debt investments. For these investments trading activity is infrequent and fair values are derived using valuation techniques.

Investment:	(\$ thousands)			
	Level one	Level two	Level three*	Total
Fixed income	\$ -	\$ 4,700,498	\$ 815,462	\$ 5,515,960
Inflation sensitive and alternative investments	-	1,054,727	2,869,648	3,924,375
Short horizon	4,303,998	1,958,423	989,443	7,251,864
Long horizon	-	-	956,493	956,493
2010 - Total Amount	\$ 4,303,998	\$ 7,713,648	\$ 5,631,046	\$ 17,648,692
- Percent	25%	43%	32%	100%
2009 - Total Amount	\$ 3,553,451	\$ 7,306,377	\$ 4,634,553	\$ 15,494,381
- Percent	23%	47%	30%	100%
Increase during the year	\$ 750,547	\$ 407,271	\$ 996,493	\$ 2,154,311

* Reconciliation of Level 3 Fair Value Measurements

	(\$ thousands)
	2010
Balance, beginning of year	\$ 4,634,553
Investment income	518,995
Purchases of Level 3 pooled fund units	1,437,063
Sale of Level 3 pooled fund units	(959,565)
Balance, end of year	\$ 5,631,046

NOTE 4 Investment Risk Management

The Plan is exposed to financial risks associated with its investment activities. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Board. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. The expected rate of return on investments, together with the expected long term inflation rate, form the basis for determining the economic assumptions used in calculating the actuarial liabilities. In order to earn the best possible return at an acceptable level of risk, the Board of Trustees established the following asset mix policy ranges:

Fixed Income	20-50%
Inflation Sensitive/Alternatives	20-50%
Short Horizon	25-50%
Long Horizon	5-10%

Credit Risk

Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the Plan. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. Interest bearing securities primarily include investment grade bonds, notes and short-term securities and privately issued mortgage and debt securities. Investment grade securities are those issued by counterparties that have a credit rating of BBB (moderately safe investment) to AAA (safe investment with almost no counterparty credit risk).

Foreign Currency Risk

A portion of the Plan's investments are denominated in currencies other than the Canadian dollar and are therefore exposed to foreign currency risk. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. A ten percent increase in the value of the Canadian dollar against all currencies, with all other variables and underlying values held constant, would result in an approximate decrease in the value of the Plan's investments by \$626 million (2009: \$515 million).

Notes to the Financial Statements

(All dollar amounts in thousands, except per member data)

Interest Rate Risk

Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. A one percent increase in interest rates, with all other variables held constant, would result in an approximate decrease in the value of the Plan's interest bearing investments of \$697 million (2009: \$590 million).

Price Risk

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan's investments are recorded at fair value on the statement of net assets available for benefits. Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits. A ten percent decrease in equity market indices, with all other variables held constant, would result in an approximate decrease in the value of equity investments by approximately \$663 million (2009: \$588 million).

Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation.

NOTE 5 Derivative Contracts

A derivative is a financial contract with the following three characteristics: (1) its value changes in response to the change in a specified interest rate, equity or bond index price, foreign exchange rate or credit rating; (2) it requires no initial net investment or the initial investment is smaller than required for exposure to a similar investment market; and (3) it is settled in the future. AIMCo uses various types of derivative contracts through pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk, and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counterparty.

Interest rate derivatives provide for the Plan to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps, futures contracts and options.

Equity replication derivatives provide for the Plan to receive or pay cash based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount. Equity derivatives primarily include equity index swaps, futures contracts and rights, warrants and options.

Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Credit risk derivatives include credit default swaps allowing the Plan to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

The following is a summary of the Plan's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of portfolio investments (Note 3) at December 31, 2010:

(\$ thousands)							
				2010		2009	
Maturity				Notional Amount (a)	Net Fair Value (b)	Notional Amount (a)	Net Fair Value (b)
Under 1 year	1 to 3 Years	Over 3 Years					
%							
Equity replication derivatives	100	-	-	\$ 5,924,270	\$ 99,585	\$ 4,692,921	\$ 30,482
Interest rate derivatives	54	22	24	1,197,429	(10,156)	1,614,623	(21,183)
Foreign currency derivatives	100	-	-	2,821,943	26,059	2,789,653	59,549
Credit risk derivatives	46	14	40	489,753	(5,261)	494,217	(3,467)
Derivative related receivables, net					110,227		65,381
Deposits in futures margin accounts					100,652		95,059
Net derivative related investments (included in Note 3)					<u>\$210,879</u>		<u>\$ 160,440</u>

- a) The notional amounts upon which payments are based are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value).
- b) The method of determining fair value of derivative contracts is described in Note 2 (e).

Notes to the Financial Statements

(All dollar amounts in thousands, except per member data)

NOTE 6 Contributions Receivable

	(\$ thousands)	
	2010	2009
Employers	\$ 23,106	\$ 21,498
Employees	21,085	19,422
	<u>\$ 44,191</u>	<u>\$ 40,920</u>

NOTE 7 Liability for Accrued Benefits

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2009 by Mercer (Canada) Limited and results were then extrapolated to December 31, 2010.

The actuarial assumptions used in determining the value of the liability for accrued benefits of \$22,322,100 (2009: \$19,366,100) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the investment rate of return, inflation rate and salary escalation rate. The investment rate of return is based on the average from a consistent modeled investment return, net of investment expenses, and an additive of 0.5% for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2010	2009
	%	
Investment rate of return	6.00	6.50
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50

* In addition to age specific merit and promotion increase assumptions.

The Board's policy is to have an actuarial valuation of the Plan carried out every year. As a result, an actuarial valuation of the Plan as at December 31, 2010 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2011.

b) NET EXPERIENCE GAINS

Experience gains of \$82,500 (2009: losses of \$657,900) arose from differences between the actuarial assumptions used in the 2009 valuation and 2010 extrapolation for reporting compared to actual results.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2010:

	(\$ thousands)		
	Changes in Assumptions %	Increase in Plan Deficiency \$	Increase in Current Service Cost as a % of Pensionable Earnings ⁽¹⁾
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0	1,529,600	0.9
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	964,000	1.2
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0)	3,568,600	3.0

⁽¹⁾ The current service cost as a percentage of pensionable earnings as determined by the December 31, 2010 extrapolation was 14.69%.

NOTE 8 Contributions

	(\$ thousands)	
	2010	2009
Current and optional service		
Employers	\$ 777,766	\$ 677,825
Employees ^(a)	713,465	615,785
Transfers from other plans	12,000	20,345
	<u>\$ 1,503,231</u>	<u>\$ 1,313,955</u>

a) Includes \$24,041 (2009: \$19,789) of optional service contributions.

Notes to the Financial Statements

(All dollar amounts in thousands, except per member data)

NOTE 9 Net Investment Income

a) INVESTMENT INCOME

The following is a summary of the Plan's investment income and expenses by asset class.

	(\$ thousands)					
	2010			2009		
	Gross Income	Expenses	Net Income	Gross Income (Loss)	Expenses	Net Income (Loss)
Foreign equities	\$ 233,055	\$ (14,337)	\$ 218,718	\$ 588,278	\$ (15,136)	\$ 573,142
Canadian equities	337,955	(2,801)	335,154	503,318	(4,081)	499,237
Interest-bearing securities	538,433	(6,047)	532,386	247,149	(6,778)	240,371
Absolute return strategies	81,129	(6,054)	75,075	102,562	(6,392)	96,170
Real estate	236,192	(8,758)	227,434	(137,641)	(6,884)	(144,525)
Infrastructure	57,708	(6,875)	50,833	13,088	(6,861)	6,227
Timberland	1,384	(732)	652	(3,427)	(621)	(4,048)
Private equities	73,437	(17,772)	55,665	(25,726)	(16,479)	(42,205)
Real return bonds	104,524	(729)	103,795	93,891	(311)	93,580
	\$ 1,663,817	\$ (64,105)	\$ 1,599,712	\$ 1,381,492	\$ (63,543)	\$ 1,317,949

Income is comprised of income from investments in pooled funds managed by AIMCo.

b) INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by Plan and its share of expenses through pool investment funds.

Investment services provided directly by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

Alberta Finance and Enterprise provides investment accounting and reporting for the Plan and treasury management services. A portion of these costs is charged to the Plan.

Investment expenses as a percentage of average fair value of investments and per member are provided below:

	(\$ thousands)	
	2010	2009
Total investment expenses	\$ 64,105	\$ 63,543
Average fair value of investments	\$ 16,571,537	\$ 14,493,724
Percent of investments at average fair value	0.39%	0.44%
Investment expenses per member	\$ 316	\$ 327

NOTE 10 Investment Performance (net of investment expenses)

The following is a summary of the investment performance results, net of fees, attained by the Plan.

	2010	2009 restated (d)	Four-Year Compound Annualized Return	Ten-Year Compound Annualized Return	Seventeen-Year Compound Annualized Return
Time weighted rates of return ^(a)	<i>in percent</i>				
<i>Actual gain</i>	9.9	9.6	1.7	4.7	7.2
<i>Policy benchmark gain ^(b)</i>	11.6	11.1	3.2	5.0	7.3
<i>Value lost by investment manager ^(c)</i>	(1.7)	(1.5)	(1.5)	(0.3)	(0.1)

- a) The measure involves the calculation of the return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).
- b) The policy benchmark is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determination of the overall policy benchmark are based on management's best estimate which may vary significantly from the final benchmark return. Differences between the estimated sector benchmark returns and the final benchmark returns are recorded in the period of the change.
- c) For 2010, the investment manager is expected to deliver a return of 100 basis points, or 1%, net of fees, above the policy benchmark return on a continuous rolling four-year time horizon.
- d) All investment returns are provided by AIMCo. The actual return for 2009 has been restated to conform to changes provided by AIMCo subsequent to the completion and audit of the 2009 financial statements. As a result, the overall actual return in 2009 increased from 9.4% to 9.6%, resulting from an increase in estimated fair values and returns for inflation sensitive and alternative investments.

Notes to the Financial Statements

(All dollar amounts in thousands, except per member data)

NOTE 11 Member Service Expenses

	(\$ thousands)	
	2010	2009
General administration costs and process improvement costs		
Alberta Pensions Services Corporation (APS)	\$ 27,861	\$ 21,782
Alberta Local Authorities Pension Plan Corporation (ALAPP Corp.)	1,983	2,206
Actuarial fees	372	254
	30,216	24,242
Member service expenses per member	\$ 149	\$ 125

General administration costs and process improvement costs, including the Board costs were paid to APS and ALAPP Corp. on a cost-recovery basis.

The Plan's share of APS's operating and plan specific costs were based on cost allocation policies approved by the Minister of Alberta Finance and Enterprise.

ALAPP Corp. costs include remuneration to senior officials and the Board members as follows:

	(\$ thousands)				
	2010			2009	
	Base Salary (a)	Other Cash Benefits (b)	Other Non-Cash Benefits (c)	Total	Total
Corporation Board Chair ^(d)	\$ -	\$ 18	\$ -	\$ 18	\$ 39
Corporation Board Members (excluding Chair) ^(d)	-	160	-	160	133
President & Chief Executive Officer ^(e)	190	49	46	285	257
Vice-Presidents:					
Investments ^(f)	61	20	3	84	-
Policy and Research ^(g)	75	5	17	97	206
Stakeholder Relations ^(h)	91	-	22	113	-

a) Base salary includes regular base pay.

b) Other cash benefits include incentive pay, lump sum payments, vacation payouts and car allowance honoraria.

c) Other non-cash benefits include the Corporation's share of all employees' benefits and contributions or payments made on their behalf including pension, health care, dental coverage, professional memberships and group life insurance.

d) Remuneration paid for the services of the Chair and 13 board members is classified under the Board meeting fees and is paid in accordance with the fee structure approved by the Minister of Alberta Finance and Enterprise.

e) In 2009, this position was held for ten months, vacant for two months.

f) This is a new 0.6 FTE position, vacant five months, in 2010.

g) This is a new full-time position, vacant five months, in 2010.

h) This is a new full-time position, vacant three months, in 2010, replacing the previous Communication Manager.

NOTE 12 Total Plan Expenses

Total Plan expenses of investment expenses per Note 9 (b) and member service expenses per Note 11 are \$94,321 (2009: \$87,785) or \$465 (2009: \$451) per member and 0.53% (2009: 0.57%) of net assets under administration.

NOTE 13 Funding of Actuarial Deficiency

The Plan's deficiency is determined on the fair value basis for accounting purposes. However for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset value for funding valuation purposes amounted to \$17,935,300 at December 31, 2010 (2009: \$16,198,400).

In accordance with the Public Sector Pension Plans Act, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totalling 6.23% of pensionable earnings shared equally between employers and employees until December 31, 2022. The special payments have been included in the rates in effect at December 31, 2010 (see Note 1(b)).

NOTE 14 Comparative Figures

Comparative figures have been reclassified to be consistent with 2010 presentation.

NOTE 15 Responsibility for Financial Statements

These financial statements were approved by the Deputy Minister of Alberta Finance and Enterprise, based on information provided by APS, ALAPP Corp., AIMCo and the Plan's actuary, and after consultation with the Board.

